STATE OF CALIFORNIA ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

June 29, 2007 Advice Letter 2841-G

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas & Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

Subject: Annual Core Hedge Implementation Plan for 2007 in Compliance with Long Term Hedge Plan Decision 07-06-013

Dear Mr. Cherry:

Advice Letter 2841-G is effective June 26, 2007.

Sincerely,

Sean H. Gallagher, Director
Energy Division

Attachment II of this document contains confidential market sensitive information and is being filed under seal and under the provisions of Public Utilities Code Sections 583 and 454.5(g)

Pacific Gas and Electric Company®

Brian K. Cherry
Vice President
Regulatory
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Mail Code B10C
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177

Fax: 415.973.7226

June 8, 2007

Advice 2841-G
(Pacific Gas and Electric Company ID U39G)

Public Utilities Commission of the State of California

Subject: **Annual Core Hedge Implementation Plan for 2007 in Compliance with Long Term Hedge Plan Decision 07-06-013**

Pacific Gas and Electric Company (PG&E) hereby submits for filing revisions to its gas tariffs. The affected tariff sheets are included in Attachment I to this filing.

Purpose

Pacific Gas and Electric Company (PG&E) hereby submits for California Public Utilities Commission (Commission or CPUC) review and expedited approval its confidential Annual Core Hedge Implementation Plan for 2007 (2007 Annual Plan or Plan). PG&E is submitting the Annual Plan in accordance with the Long Term Core Hedge Program Settlement Agreement (Settlement) that the Commission adopted on June 7, 2007, in Decision (D.) 07-06-013. When approved by the California Public Utilities Commission (Commission) this plan will authorize PG&E to buy call options and swaps for a three year horizon in compliance with the Settlement.

The 2007 Annual Plan contains confidential and market sensitive information and therefore is being filed under seal and under the provisions of California Public Utilities Code Sections 583 and 545.5(g). PG&E provides a copy of the 2007 Annual Plan in Confidential Attachment II.

Background

On December 20, 2006, PG&E filed a motion to adopt the Settlement between PG&E and consumer advocates, the Division of Ratepayer Advocates (DRA), The Utility Reform Network (TURN), and Aglet Consumer Alliance (Aglet). The Commission adopted the Settlement on June 7, 2007, in D.07-06-013**.** As stated in the decision, the Settlement proposed a total budget for hedges that will result in approximately the same dollar impact on PG&E's core procurement customers as previously authorized hedging plans. The Annual Plan should be treated as a long-term gas hedging plan in a manner consistent with the confidentiality provisions of D.06-06-066 as modified by D.07-05-032.

The Settlement Agreement also created a Core Hedging Advisory Group (Advisory Group) made up of non-market participants who represent the interests of PG&E's core gas customers. The initial members are TURN, DRA and Aglet. In compliance with the Settlement Agreement, PG&E has developed the 2007 Annual Plan in consultation with the Advisory Group.

Once the 2007 Annual Plan is executed, PG&E will submit the following confidential documents as required by the Settlement Agreement:

- Two compliance advice letters will be filed with the Commission detailing the transactions executed under the 2007 Annual Plan. The first advice letter will be filed after the annual implementation period which ends September 30, 2007, and the second after the end of the 2007/2008 winter heating season.
- A report of the financial results of the execution of the 2007 Annual Plan will be submitted to the Advisory Group and the Energy Division, on a confidential basis, on or about April 1, 2008. This report will include, but not be limited to, the following information: total funds spent on hedging instruments, total losses and gains for each category of hedging instrument, amount of natural gas supplies hedged monthly, and impact of the Plan on utility rates.
- Monthly summaries of hedging activities and mark-to-market values of the hedges will also be provided to the Advisory Group and the Energy Division.

Hedging costs will continue to be recorded in a separate subaccount of the Purchased Gas Account and will be recovered from core gas procurement customers through PG&E's monthly core procurement advice filings. Hedging conducted in accordance with D. 07-06-013 will be done outside of the provisions of PG&E's Core Procurement Incentive Mechanism (CPIM).

Tariff Revision

Gas Preliminary Statement Part C – Gas Accounting Terms and Definitions is revised to reflect the approval of D.07-06-013 in Section 7 "Gas Supply Portfolio" and Section 14 "Core Procurement Incentive Mechanism."

Gas Preliminary Statement Part D - Purchased Gas Account is revised to reflect the approval of D.07-06-013, and to change the title of the subaccount from "Emergency Core Gas Hedging Plan Subaccount" to "Core Gas Hedging Plan Subaccount" for administrative clarity.

Protests – Ten Day Expedited Period

Anyone wishing to protest this filing may do so by sending a letter by **June 18, 2007**, which is 10 days from the date of this filing. The expedited protest period is in accordance with the Settlement Agreement (section 2.7) adopted in D. 07-06-013 which allows for a 10 protest period and 3 day response, shortened from the normal 20 day protest period and 5 day response. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

CPUC - Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Protests also should be sent by e-mail and facsimile to Mr. Honesto Gatchalian, Energy Division, as shown above, and by U.S. mail to Mr. Gatchalian at the above address.

The protest should be sent via both e-mail and facsimile to PG&E at the address shown below on the same date it is mailed or delivered to the Commission.

Pacific Gas and Electric Company
Attention: Brian K. Cherry
Vice President, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-7226
E-mail: PGETariffs@pge.com

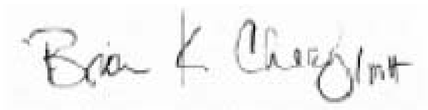
Effective Date

In accordance with the expedited protest period approved in D.07-06-013, and discussed above, PG&E requests that this advice filing become effective **June 26, 2007,** which is **18** days after the date of this filing.

Notice

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter is being sent electronically and sent via U.S. mail to parties shown on the attached list and the list for A.06-05-007. Address change requests should also be directed to Rose De La Torre at (415) 973-4716. Advice letter filings can also be accessed electronically at:

http://www.pge.com/tariffs



Vice President, Regulatory Relations

Attachments

CC: Service List A.06-05-007

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY
ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **Pacific Gas and Electric Company (ID U39)**

Utility type:

☑ ELC ☑ GAS

☐ PLC ☐ HEAT ☐ WATER

Contact Person: Megan Hughes

Phone #: (415) 973-1877

E-mail: mehr@pge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas

PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: **2841-G**

Subject of AL: Annual Core Hedge Implementation Plan for 2007 in Compliance with Long Term Hedge Plan Decision 07-06-013

Keywords (choose from CPUC listing): Compliance

AL filing type: ☐ Monthly ☐ Quarterly ☐ Annual ☑ One-Time ☐ Other ______________________________

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.07-06-013

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

Summarize differences between the AL and the prior withdrawn or rejected AL[1]: ____________________

Resolution Required? ☐ Yes ☒ No

Requested effective date: **June 26, 2007**

No. of tariff sheets: 7

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%):N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: Gas Preliminary Statements C and D

Service affected and changes proposed[1]: N/A

Pending advice letters that revise the same tariff sheets: N/A

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Ave.,
San Francisco, CA 94102
jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Pacific Gas and Electric Company
Attn: Brian K. Cherry
Vice President, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177
E-mail: PGETariffs@pge.com

[1] Discuss in AL if more space is needed.

ATTACHMENT 1
Advice 2841-G

Cal P.U.C. Sheet No.	Title of Sheet	Cancelling Cal P.U.C. Sheet No.
24973-G	Preliminary Statement Part C--Gas Accounting Terms and Definitions	24812-G
24974-G	Preliminary Statement Part C (Cont.)	24432-G
24975-G	Preliminary Statement Part D--Purchased Gas Account	24629-G
24976-G	Preliminary Statement Part D (Cont.)	24451-G
24977-G	Table of Contents -- Preliminary Statements	24743-G
24978-G	Table of Contents -- Title Page	24899-G

PRELIMINARY STATEMENT
(Continued)

C. GAS ACCOUNTING TERMS AND DEFINITIONS (Cont'd.)

6. FRANCHISE FEES AND UNCOLLECTIBLE ACCOUNTS EXPENSE (F&U): F&U refers to that portion of rates designed to recover PG&E's authorized expenses for both the use of public rights-of-way (franchise fees) and bad debts (uncollectible accounts expense). Rates for retail customers include a component for F&U, as determined in PG&E's 2007 General Rate Case Decision 07-03-044. Rates for wholesale customers include a component for the franchise fees only, per Decision 87-12-039. Rates for UEG and cogeneration include uncollectibles expense and a reduced component for franchise fees.

The F&U factor is equal to..1.012151

7. GAS SUPPLY PORTFOLIO: This portfolio includes the cost of gas procured by PG&E for its Core Portfolio (Core Procurement) customers. The costs and payouts for hedge instruments transacted under the core gas hedging plans, as approved in Decision 05-10-015 (effective October 6, 2005), (T) Decision 06-08-027 (effective August 24, 2006), and Decision 07-06-013 (effective June 7, 2007) (T) are included in the Gas Supply Portfolio, but are tracked separately. Gas Supply Portfolio costs are recovered through the Procurement Revenue Requirement described in Section C.10.d.

Costs incurred for the portfolio include the cost of volumetric transportation, incremental pipeline capacity costs, imbalance transactions, hub services, incremental storage services, voluntary diversions, and emergency flow order (EFO) and operational flow order (OFO) charges and other portfolio-related services. These costs may be offset by revenue or gains from risk management tools such as derivative financial instruments (net of transaction costs), and other gas sales. Other transactions such as net revenue from imbalance transactions and byproducts extraction, expenses/losses from risk management tools, and pre-payments and credit and collateral payments, including all associated fees for gas procurement purchases, transportation, and related services, are included in the portfolio.

The net cost of the "flowing supply" is the result of the transactions listed above. This portfolio also includes gas withdrawn from storage and excludes gas injected into storage for Core Procurement customers using the core storage reservation.

(Continued)

PRELIMINARY STATEMENT
(Continued)

C. GAS ACCOUNTING TERMS AND DEFINITIONS (Cont'd.)

14. CORE PROCUREMENT INCENTIVE MECHANISM: The Core Procurement Incentive Mechanism (CPIM) is designed to replace traditional reasonableness reviews for Gas Procurement Costs as defined in C.10, above. PG&E will report its procurement activities monthly to the CPUC's Energy Division and Division of Ratepayer Advocates (DRA) and will file an annual report outlining cost savings, reward or penalties under the CPIM. Incentive rewards and penalties are calculated annually and, upon Commission approval, will be recorded in the Core Subaccount of the Purchased Gas Account (PGA). For the 2004-2005 CPIM (Year 12), PG&E will forego any shareholder award in accordance with Ordering Paragraph 5 of Decision 05-10-015.

Decision 97-08-055 adopted a CPIM mechanism for Post-1997 performance as filed in Application 96-08-043, and as affirmed in Decision 03-12-061, and as modified by Decision 04-01-047. The modifications adopted in Decision 04-01-047 are effective for the CPIM year starting November 1, 2002. The CPIM will continue until either DRA or PG&E proposes modifications and those modifications are approved by the CPUC. No costs and payouts for hedge instruments pursuant to Decision 05-10-015 (effective October 6, 2005), Decision 06-08-027 (T)
(effective August 24, 2006), and Decision 07-06-013 (effective June 7, 2007) are included in the (T)
CPIM.

The CPIM provides PG&E with a direct financial incentive to procure core gas and transportation services at the lowest reasonable cost by calculating rewards or penalties through comparing actual procurement costs to an aggregate market-based benchmark.

The CPIM establishes both a standard benchmark, which applies to purchasing activities occurring under most operating and temperature conditions, and an alternate benchmark which applies only under extraordinary circumstances requiring economic and/or physical diversions of supplies and transportation resources held by other shippers on the interstate and intrastate transmission system.

The CPIM standard benchmark is made up of three components: (1) the fixed transportation cost component, which includes both interstate and intrastate capacity reservation costs; (2) the variable cost component, which covers commodity costs and volumetric transportation costs; and (3) a storage cost component.

The commodity and capacity benchmark components are calculated daily. At the end of each 12-month period, the daily benchmark components are added together to form a single annual benchmark budget. Actual incurred costs are compared to the benchmark. If actual gas commodity and capacity costs fall within a range (tolerance band) around the benchmark, costs are deemed reasonable, and are fully recoverable from ratepayers. If actual costs fall below the tolerance band, the savings (the difference between the lower limit of the tolerance band and actual recorded costs) are shared between ratepayers and shareholders according to the following procedure:

a) 75 percent to ratepayers and 25 percent to shareholders; and

b) In addition, annual PG&E shareholder awards are capped at the lower of 1.5 percent of the total annual gas commodity costs, or $25 million.

Ratepayers and shareholders share equally any costs in excess of the upper limit of the tolerance band.

An alternate benchmark can be invoked by PG&E under certain extraordinary circumstances requiring economic and/or mandatory diversions of gas and transmission resources held by other shippers. All voluntary and involuntary diversion costs are compared to the highest value of the daily PG&E Citygate index range. There is no tolerance band for the alternate benchmark, and actual costs savings or overruns, relative to the benchmark, are shared 95 percent by ratepayers and 5 percent by shareholders.

PRELIMINARY STATEMENT
(Continued)

D. PURCHASED GAS ACCOUNT (PGA)

1. PURPOSE: The purpose of the PGA is to record the cost associated with gas purchased for the Gas Supply Portfolio and revenues from the sale of that gas. The balance in the core sub-accounts will be incorporated into monthly core procurement rates.

   Descriptions of the terms and definitions used in this section are found in Preliminary Statement, Part C or in Rule 1.

2. APPLICABILITY: The PGA balance applies to all gas procurement rate schedules and contracts subject to the jurisdiction of the CPUC, except for those schedules and contracts specifically excluded by the CPUC.

3. REVISION DATE: The revision date applicable to the PGA rate shall coincide with the monthly core procurement rate change or at other times, as ordered by the CPUC.

4. FORECAST PERIOD: The forecast test period will be as specified in the current Cost Allocation Proceeding.

5. PGA RATES: PGA Rates are included in the effective procurement rates set forth in each procurement rate schedule (see Preliminary Statement, Part B), as applicable.

6. ACCOUNTING PROCEDURE: The PGA consists of the following subaccounts:

   The “Core Subaccount” records the cost of gas procured for sale to core customers and revenues from the sales to core customers of that gas. (See Preliminary Statement Part C.7.)

   The “Core Shrinkage Subaccount” records core shrinkage costs and shrinkage revenues from core procurement customers.

   The “Core Gas Hedging Plan Subaccount” records revenues from core procurement customers, (T)
   and cost and payouts for hedge instruments transacted under the core gas hedging plans pursuant
   to Decision (D.) 05-10-015 (effective October 6, 2005), (D.) 06-08-027 (effective August 24, 2006), (T)
   and (D.) 07-06-013 (effective June 7, 2007). (T)

   The “Winter Gas Savings Program Procurement Subaccount” recovers procurement-related program costs, including rebates to customers and approved marketing and implementation costs, from core procurement customers. The 10/20 Winter Gas Savings Program (WGSP) is designed to encourage conservation as detailed in Schedule G-10/20 – *Winter Gas Savings Program*.

(Continued)

PRELIMINARY STATEMENT
(Continued)

D. PURCHASED GAS ACCOUNT (PGA) (Cont'd.)

6. ACCOUNTING PROCEDURE: (Cont'd.)

b. Core Shrinkage Subaccount

The following entries will be made to this account each month:

1) a debit entry equal to the core portion of the recorded purchased gas cost for shrinkage;

2) a credit entry equal to the shrinkage revenue from core customers during the month, excluding the allowance for F&U; and

3) an entry equal to the interest on the average of the balance in the subaccount at the beginning of the month and the balance in the subaccount after entries from D.6.b.1. and D.6.b.2, above, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor.

c. Core Gas Hedging Plan Subaccount (T)

The following entries will be made to this account each month as needed:

1) a debit entry equal to the costs of any hedge instruments under the Emergency Core Gas Hedging Plan pursuant to D.05-10-015, D.06-08-027, and Annual Core Hedge (T)
Implementation Plan approval pursuant to D. 07-06-013; (T)

2) a credit entry equal to the revenue from the Winter Hedging rate component, excluding the allowance for F&U;

3) a credit entry equal to the payouts associated with any hedge instruments under the Emergency Core Gas Hedging Plan pursuant to D.05-10-015 and D.06-08-027; and (T)
Annual Core hedge Implementation Plan pursuant to D. 07-06-013. (T)

4) a debit or credit entry to transfer any remaining balance in this subaccount to the Core subaccount of the PGA upon termination of this subaccount; and

5) an entry equal to the interest on the average of the balance in the subaccount at the beginning of the month and the balance in the subaccount after entries from D.6.c.1 through D.6.c.4, above, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor.

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Preliminary Statements

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Attachment II

This document contains confidential market sensitive information and is being filed under seal and under the provisions of Public Utilities Code Sections 583 and 454.5(g)

PG&E Gas and Electric Advice Filing List
General Order 96-A, Section III(G)

ABAG Power Pool
Accent Energy
Aglet Consumer Alliance
Agnews Developmental Center
Ahmed, Ali
Alcantar & Kahl
Ancillary Services Coalition
Anderson Donovan & Poole P.C.
Applied Power Technologies
APS Energy Services Co Inc
Arter & Hadden LLP
Avista Corp
Barkovich & Yap, Inc.
BART
Bartle Wells Associates
Blue Ridge Gas
Bohannon Development Co
BP Energy Company
Braun & Associates
C & H Sugar Co.
CA Bldg Industry Association
CA Cotton Ginners & Growers Assoc.
CA League of Food Processors
CA Water Service Group
California Energy Commission
California Farm Bureau Federation
California Gas Acquisition Svcs
California ISO
Calpine
Calpine Corp
Calpine Gilroy Cogen
Cambridge Energy Research Assoc
Cameron McKenna
Cardinal Cogen
Cellnet Data Systems
Chevron Texaco
Chevron USA Production Co.
City of Glendale
City of Healdsburg
City of Palo Alto
City of Redding
CLECA Law Office
Commerce Energy
Constellation New Energy
CPUC
Cross Border Inc
Crossborder Inc
CSC Energy Services
Davis, Wright, Tremaine LLP
Defense Fuel Support Center
Department of the Army
Department of Water & Power City
DGS Natural Gas Services
Douglass & Liddell
Downey, Brand, Seymour & Rohwer
Duke Energy
Duke Energy North America
Duncan, Virgil E.
Dutcher, John
Dynegy Inc.
Ellison Schneider
Energy Law Group LLP
Energy Management Services, LLC
Exelon Energy Ohio, Inc
Exeter Associates
Foster Farms
Foster, Wheeler, Martinez
Franciscan Mobilehome
Future Resources Associates, Inc
G. A. Krause & Assoc
Gas Transmission Northwest Corporation
GLJ Energy Publications
Goodin, MacBride, Squeri, Schlotz &
Hanna & Morton
Heeg, Peggy A.
Hitachi Global Storage Technologies
Hogan Manufacturing, Inc
House, Lon
Imperial Irrigation District
Integrated Utility Consulting Group
International Power Technology
Interstate Gas Services, Inc.
IUCG/Sunshine Design LLC
J. R. Wood, Inc
JTM, Inc
Luce, Forward, Hamilton & Scripps
Manatt, Phelps & Phillips
Marcus, David
Matthew V. Brady & Associates
Maynor, Donald H.
MBMC, Inc.
McKenzie & Assoc
McKenzie & Associates
Meek, Daniel W.
Mirant California, LLC
Modesto Irrigation Dist
Morrison & Foerster
Morse Richard Weisenmiller & Assoc.
Navigant Consulting
New United Motor Mfg, Inc
Norris & Wong Associates
North Coast Solar Resources
Northern California Power Agency
Office of Energy Assessments
OnGrid Solar
Palo Alto Muni Utilities
PG&E National Energy Group
Pinnacle CNG Company
PITCO
Plurimi, Inc.
PPL EnergyPlus, LLC
Praxair, Inc.
Price, Roy
Product Development Dept
R. M. Hairston & Company
R. W. Beck & Associates
Recon Research
Regional Cogeneration Service
RMC Lonestar
Sacramento Municipal Utility District
SCD Energy Solutions
Seattle City Light
Sempra
Sempra Energy
Sequoia Union HS Dist
SESCO
Sierra Pacific Power Company
Silicon Valley Power
Smurfit Stone Container Corp
Southern California Edison
SPURR
St. Paul Assoc
Sutherland, Asbill & Brennan
Tabors Caramanis & Associates
Tecogen, Inc
TFS Energy
Transcanada
Turlock Irrigation District
U S Borax, Inc
United Cogen Inc.
URM Groups
Utility Resource Network
Wellhead Electric Company
White & Case
WMA